

EDMONDS SCHOOL DISTRICT No. 15
Snohomish County, Washington
September 1, 1993 Through August 31, 1994

Schedule Of Findings

1. Edmonds School District Officials Should Strengthen Controls Over SCAN And Cellular Phone Usage

Edmonds School District utilizes the State Controlled Area Network (SCAN), a dedicated telephone network managed by the State of Washington, to provide low cost long distance service to public entities. Edmonds School District also issues cellular phones to selected employees for the purpose of increasing job productivity. In our review of the SCAN and cellular phone systems we noted the following:

- a. District employees are allowed to make personal calls on the SCAN system and with cellular phones. Reimbursements for these calls are based on the "honor" system. Employees are allowed to run a "tab" on personal phone bills throughout the year. District officials do not have a system in place to ensure that all of the employees are reimbursing the district for their personal calls. Additional staff time and effort is used in attempting to collect and record the reimbursements for personal calls.
- b. District employees are issued cellular phones based on the department head's request and the department's available budget. No agreement is signed between the district and the employee addressing the liability for the loss of phones or for the bills resulting from the personal use of the phones. During the 1993-94 year, two district cellular phones were lost while in the possession of the assigned employees. In both cases, the district has issued new phones but has not received compensation for the old phones.

SCAN regulations limit the use of the system to official business calls. Article 8, Section 7, of the *Constitution of the State of Washington*, states in part:

No county, city, town or other municipal corporation shall hereafter give any money, or property, or loan its money, or credit to or in aid of any individual, association, company, or corporation

The district is in violation of the constitutional prohibition against the lending of credit by allowing employees to run "tabs" for personal phone calls. Furthermore, the district's lack of a tracking system for reimbursements and its use of staff time in collecting and recording reimbursements for personal calls constitutes a gift of public money to the individuals making the personal calls. Finally without a signed agreement between the district and the employee, the district is not protected against an employee leaving the district without turning in the cellular phone.

We recommend that district officials develop and implement policies and procedures that would strengthen the controls over SCAN and cellular phone use. District officials should

consider the following when developing the policies and procedures:

- a. The SCAN system and district cellular phones should be used for district business only. If the district does choose to allow employees to purchase cellular phones on the district contract, an agreement must be in place to limit the district's liability for charges associated with that phone. A copy of an agreement has been given to district officials to assist in this matter.
- b. They should determine who is eligible for a cellular phone and for what purposes a cellular phone may be used. Eligibility should be based on whether the district benefits from the employee's possession of a cellular phone. Safeguards need to be implemented to restrict district liability in the case of personal use of the phones, destruction of the phones, and termination of the employee. A signed agreement between the district and the employee is the most effective way to limit these liabilities. A copy of the Attorney General Memorandum dated February 2, 1993, on "Cellular Telephones and Municipal Employees" has been given to district officials to assist the district in this area.

2. District Officials Should Improve Controls Over Maintenance Materials And Supplies Inventory

Our audit reports for 1990, 1991, and 1993 contained findings relating to weaknesses in the district's maintenance materials and supplies inventory system. While some of these issues have been corrected by district management, the following weaknesses remained at the time of our current examination:

- a. Our testing disclosed inventory items found on the shelves which could not be located in the automated inventory system and/or did not agree with the physical count.
- b. Obsolete and surplus items were not accounted for in the district's system. Items were not tagged or marked as such.
- c. There are fourteen different shops in the maintenance department. Of these fourteen shops, five (Electronics, H.V.A.C., Mechanical, Boiler, and General) did not conduct a year-end physical inventory as of August 31, 1994. For the shops which did conduct a year-end physical inventory there was no evidence on the count sheets that two people were involved in the process. In addition, there were no adjustments documented between the physical count and the inventory system.
- d. There were some inventory items which were ordered during the year using a supply purchase order. These purchases were automatically expensed instead of being recorded to the inventory system. In addition, there were times when items were taken out of inventory and not recorded on the withdrawal sheets.
- e. Project charges for materials and supplies used out of inventory stock were not being tracked on the work order system. Currently, at year end, the accounting department is taking the beginning inventory, adding the purchases, and subtracting the ending inventory to arrive at a figure which is assumed to be the total inventory consumption for the year. This method does not provide management with information regarding damaged items and losses from inventory.

RCW 43.09.200 Division of Municipal Corporations) *Uniform System of Accounting*
states in part:

... The accounts shall show the receipt, use and disposition of all public property, and the income, if any, derived therefrom: all sources of public income, and the amount due and received from each source; all receipts, vouchers, and other documents kept or required to be kept, necessary to isolate and prove the validity of every transaction . . .

Policies and procedures governing inventory operations have been developed by district management, however at the time of our examination they had not been fully implemented by district staff.

We feel that these controls over maintenance and materials are inadequate and do not reduce the risk of errors or irregularities which could result in a misstatement and/or loss of assets.

We again recommend that district officials:

- a. Perform spot checks between the physical and automated inventory counts on a

cyclical basis for all fifteen maintenance departments. These checks should be performed by someone other than the employee primarily responsible for posting to the inventory system. Discrepancies should be researched. Proof of the spot checks should be maintained for the auditor's review.

- b. Establish procedures to identify and remove obsolete inventory. Any inventory not determined to be obsolete should be tagged and marked as such and entered into the system.
- c. Conduct a physical count of all inventory at year end for inclusion of corrected amounts in the financial statements. The inventory count sheets should be signed and dated by the two people who performed the count. Any adjustments to the inventory report made as a result of a physical count should be logged or journalized for future reference by management and auditors. All count sheets and adjustments should be retained for the auditor's review.
- d. Record all of the inventory purchases from the invoices to the perpetual inventory system. All items taken out of inventory should be recorded on the withdrawal sheet. The withdrawal sheet should be used to delete inventory from the perpetual inventory system.
- e. Track all inventory items used for a project on the work order system. A periodic reconciliation should take place between the inventory consumed on the work order system and the general ledger. Losses and damage to inventory should be accounted for in the accounting system.

3. District Officials Should Improve Controls Over Associated Student Body (ASB) Cash Receipting At The Various School Sites

During our review of the ASB cash receipting process at the various schools, we observed numerous weaknesses and inconsistencies among the schools regarding the cash handling procedures in effect. While an ASB procedures manual has been developed by management, it has not been fully implemented by the various school ASB officers. If the district's ASB procedures manual had been followed many of the weaknesses described below would have been eliminated.

- a. ASB Activity Receipts: Revenues coming in from ASB activities were not immediately counted and receipted by the central treasurer. Money from these activities was not being counted by two people. In addition, the activity receipts were often recorded on a single part form which was given back to the activity advisor. As a result it was difficult to support the transmittal sent to the central business office.

We recommend that the ASB activity revenue be counted by the ASB treasurer in the presence of the student who brings in the money. An activity receipt should be issued and signed by both parties when the money is counted. The receipt should be in three parts. One part should be returned to the activity advisor, the second should be attached to the daily transmittal and the third should be filed with the fund raiser reconciliation form.

- b. ASB Central Receipts: There were several schools which were not using the district's official prenumbered cash receipts. Some schools were using "Rediform" receipts which had been purchased at a retail outlet while other schools were using receipts which they had ordered from a vendor. Serial control over such receipts can be easily compromised since receipts with duplicate numbers can usually be purchased from these same sources. In addition, these receipts did not contain a place to indicate whether cash or check had been received. When the official district receipts were issued, this mode of payment was not always marked. An indication of mode of payment is necessary to assure management that all money is being deposited intact.

We recommend that all of the schools use the district's official prenumbered receipt which should be issued from the Business Service Division. We further recommend that mode of payment always be indicated on the receipts.

- c. Access to Cash: At some of the school sites we observed that cash was easily accessible. Also receipts were not always written for the cash collected from each of the individual activities.

We recommend that all cash on hand be placed in a limited access area such as a locked drawer or a safe. We further recommend that a receipt be written for each activity at which money is collected.

- d. Timely Deposits: We found several instances in which there were delays between receipts of the funds at the school's ASB office and the deposit of that money at the central business office. The deposits were delayed from three days to a week.

We recommend that deposits be made at least every two days.

- e. Student Stores: Periodic inventory counts of merchandise on hand are not being taken. The expected revenue for sales is not being calculated to determine the

retail value of these goods sold so it can be compared to the actual revenue received. Without this reconciliation district management cannot be sure that all moneys are being collected and deposited or that all inventory is being safeguarded.

We recommend that appropriate staff members periodically count inventory on hand. These amounts together with the amount of goods purchased can be used to prepare a reconciliation of actual versus expected cash receipts. These reconciliations should be turned into the ASB supervisor on a periodic basis so discrepancies can be investigated in a timely manner.

- f. Fund Raisers: Accountability for fund-raising revenue is often poor. There was no evidence that a reconciliation was performed to document the relationship between the quantity of items sold and the revenue collected.

We recommend that each fund raiser is supported with a sales reconciliation form and the activity receipts.

- g. Beverage Machines: Procedures have not been implemented to determine that the revenues received from the vendor operated machines reconcile to the number of items sold.

We recommend that district officials request support for the soft drink machine remittances from the vendors. This support should include a reconciliation of the soft drink inventory to the revenue collected.

- h. Imprest Account: The signer on the imprest account at the schools was often the same person responsible for reconciling the checking account.

We recommend that the above duties be segregated between two people.

Finally, we recommend that district management diligently pursue the implementation of the requirements included in their ASB Procedures Manual.

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Schedule Of Federal Findings

1. Payroll Charges To Federal Programs Should Be Adequately Supported

Our review of federally funded programs disclosed the following weaknesses:

- a. Although there has been significant improvements in the documentation for time and effort for the Chapter 1 Program there are still some weaknesses. We found that three of the fourteen teachers tested did not have time distribution records for the months we selected for testing. We also discovered that entire blocks of time distribution records had not been preserved. For instance we could not locate any of the time and effort records for Lynnwood Intermediate School. The other Chapter 1 schools had from one to three months of time and effort records missing.
- b. During our review of the Handicapped Program, we found that time and attendance records were not available to support the payroll charges of the fully funded employees.

District officials have never required timesheets for work performed on the handicapped programs. Payroll costs are preassigned and charged to the program based on personnel assignments. District officials were not aware that time and attendance records were needed for single cost objective employees.

All school districts that administer federal grants which are financed on an expenditure reimbursement basis and have payroll charges are subject to time and effort requirements of OMB Circular A-87, Attachment B, paragraph B (10), which provides in part:

Payroll must be supported by time and attendance or equivalent records for individual employees. Salaries and wages of employees chargeable to more than one grant program or other cost objective will be supported by appropriate time distribution records. The method used should produce an equitable distribution of time and effort.

The absence of authenticated time reports has been brought to the attention of district officials in our 1991, 1992, and 1993 audit reports.

Without adequate supporting documentation, it is not possible to ensure that the federal grant is appropriately charged for time actually spent on the grant program.

We again recommend that district officials:

- a. Require employees who's time is chargeable to more than one grant program or cost objective to maintain time distribution records.

- b. Require all employees whose time is charged to a single cost objective to maintain time and attendance records.
- c. Have employees turn in their time distribution records to grant coordinators on a monthly basis.
- d. Maintain time distribution records for the auditor's review.

2. Accounting For Federal Fixed Assets Should Be Improved

As discussed in our 1990, 1991, 1992, and 1993 audit reports, district officials have not maintained an adequate system of controls over federally funded fixed assets for the Handicapped Program. For the period under review, a physical inventory of federally funded assets had not been taken in accordance with the federal requirement. Subsequent to the end of the 1993-94 fiscal year, a physical inventory of the federally funded handicapped assets was performed by the district. The results indicated that \$50,973 worth of such assets could not be found. This makes up more than 25 percent of the district's total handicapped assets purchased with federal funds.

The "Common Rule" for *Uniform Administrative Requirements for Grants and Cooperative Agreements With State and Local Governments* published by the Office of Management and Budget (OMB) Subpart C, Paragraph 32, section (d), Management Requirements, states:

Procedures for managing equipment (including replacement equipment) whether acquired in whole or in part with grant funds, until disposition takes place will, as a minimum, meet the following requirements:

- (1) Property records must be maintained that include . . . any ultimate disposition data of disposal and sale price of the property.
- (2) A physical inventory of the property must be taken and the results reconciled with the property records at least once every two years.
- (3) A control system must be developed to ensure adequate safeguards to prevent loss, damage, or theft of the property. Any loss, damage, or theft shall be investigated.

Failure to comply with the above federal regulation could result in jeopardizing future grant funding.

There has been some confusion between the grant coordinators and the inventory control technician as to whose responsibility it is to track the federally funded assets and to conduct the bi-annual physical inventory of federally funded assets.

We again recommend that district officials perform a physical inventory a minimum of every two years. We also recommend the results of the physical inventory be reconciled with the property records of the inventory control technician. The differences between the property records and the physical inventory should be investigated and corrections should be made.